

**WALDRON DISTRICT LIBRARY
HILLSDALE COUNTY, MICHIGAN**

ANNUAL FINANCIAL REPORT

JULY 31, 2004

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name WALDRON DISTRICT LIBRARY	County HILLSDALE
Audit Date 7/31/04	Opinion Date 1/31/05	Date Accountant Report Submitted to State: 5/19/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

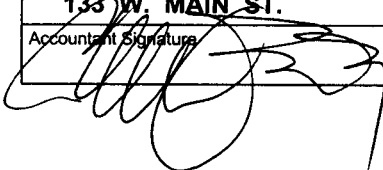
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>		
Reports on individual federal financial assistance programs (program audits).			<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).			<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name) PHILIP R. RUBLEY, CPA			
Street Address 133 W. MAIN ST.	City MORENCI	State MI	ZIP 49256
Accountant Signature 		Date 5/19/05	

**WALDRON DISTRICT LIBRARY
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JULY 31, 2004**

TABLE OF CONTENTS

<u>FINANCIAL SECTION</u>	<u>PAGE</u>
Management Discussion and Analysis	1 - 5
Independent Auditor's Report	6 - 7
Government – Wide Statement of Net Assets	8
Government – Wide Statement of Activities	9
Governmental Fund Balance Sheet	10
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets	11
Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance	12
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	13
Notes to Financial Statements	14 - 19
 <u>REQUIRED SUPPLEMENTAL INFORMATION</u>	
Budgetary Comparison Schedule – General Fund	20
 <u>OTHER INFORMATION</u>	
Letter on Internal Controls	

WALDRON DISTRICT LIBRARY
Management's Discussion and Analysis
July 31, 2004

Using This Annual Report

The annual report consists of a series of financial statements. The statement of net assets and the statement of activities are both new and provide information about the activities of Waldron District Library government-wide basis. They are designed to present a longer-term view of the Library's finances. Fund financial statements tell how services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Library's operations in more detail than the government-wide financial statements.

Overview Of The Financial Statements

The Library's basic financial statements are comprised of two components:

- A) Government-wide financial statements.
- B) Notes to the financial statements.

This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Library's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Library's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Library is improving or deteriorating.

The Library maintains 1 individual governmental fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general, which is considered to be a major fund.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement of some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the Library that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the Library include general government. There are no business-type activities for the Library at July 31, 2004.

WALDRON DISTRICT LIBRARY
Management's Discussion and Analysis
July 31, 2004

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Library, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Library can be divided into one category, governmental funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Other Information

The Library has reported under required supplementation information, information about the General Fund.

The Library As A Whole

The Library's net assets for the year ended July 31, 2004 increased by 1.3% over the prior year, and management feels that even though the economic conditions have been slightly depressed, that the Library is fiscally able to continue to provide necessary services.

The governmental activities reflect net assets of \$235,170.

The largest portion of the Library's net assets (75 percent) reflects its investment in capital assets (e.g. land, buildings, equipment, books and periodicals). The Library uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

WALDRON DISTRICT LIBRARY
Management's Discussion and Analysis
July 31, 2004

WALDRON DISTRICT LIBRARY
STATEMENT OF ACTIVITIES

Governmental
Activities

2004

Revenue

Program Revenue:

Charges for Services

\$ 1,184

Operating Grants and Contributions

37,696

General Revenue:

Governmental Transfers

7,300

Grants and Contributions Not

Restricted to Specific Program

14,202

Interest Income

371

Total Revenue

60,753

Expenses

General Government:

Library

63,775

Total Expenses

63,775

Increase (Decrease) In Net Assets

(3,022)

Net Assets Beginning of Year

238,192

Net Assets End of Year

\$235,170

WALDRON DISTRICT LIBRARY
Management's Discussion and Analysis
July 31, 2004

WALDRON DISTRICT LIBRARY
STATEMENT OF NET ASSETS

	<u>Governmental</u> <u>Activities</u>
	<u>2004</u>
<u>Assets</u>	
Current and Other Assets	\$ 59,439
Capital Assets	<u>176,133</u>
Total Assets	<u>235,572</u>
<u>Liabilities</u>	
Other Liabilities	<u>402</u>
Total Liabilities	<u>402</u>
<u>Net Assets</u>	
Invested in Capital Assets, Net of Related Debt	176,133
Unrestricted	47,416
Restricted	<u>11,621</u>
Total Net Assets	<u>\$235,170</u>

Government Activities

Government activities increased the Library's assets by \$33,174. However depreciation expense on capital items under GASB 34 created a reduction of \$36,196 resulting in a net decrease of \$3,022.

The Library's Funds

Our analysis of the Library's funds begins on Page 8, following the entity wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Library as a whole. The Library Board and management creates funds to help manage money for specific purposes as well as to show accountability for certain activities.

General Fund Budgetary Highlights

Income in 2003-2004 remained above budget due to memorial donations. Donations in 2004 were over 2002 by more than double. All income is unpredictable, until changes are made to a millage type resource. Lack of dependable income makes budgeting difficult.

WALDRON DISTRICT LIBRARY
Management's Discussion and Analysis
July 31, 2004

Capital Assets

The Library's investment in capital assets for its governmental activities as of July 31, 2004, amounted to \$176,133 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, books and audio-video.

Contacting The Library's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Library's finances and to show the Library's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Library's Office at 107 N. Main St., Waldron, MI 49288.

PHILIP R. RUBLEY

- Certified Public Accountant -

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FAX 517/458-6353

PHILIP R. RUBLEY, C.P.A.

MEMBERS OF
AMERICAN INSTITUTE OF C.P.A.'S
& THE MICHIGAN ASSOCIATION OF C.P.A.'S

January 31, 2005

Waldron District Library
Board of Trustees
107 N. Main St.
Waldron, Michigan 49288

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Waldron District Library as of and for the year ended July 31, 2004, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Waldron District Library, management. Our responsibility is to express opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Waldron District Library, as of July 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

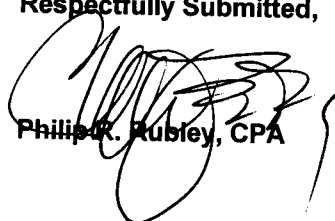
As described in Note 6, the Library's has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*, as of August 1, 2003.

The management's discussion and analysis and budgetary comparison information on pages 1 through 5, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Waldron District Library
January 31, 2005

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Waldron District Library basic financial statements.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Philip R. Rubley", is written over the printed name.

Philip R. Rubley, CPA

PRR/cab

WALDRON DISTRICT LIBRARY
Government-wide Statement of Net Assets
July 31, 2004

	Governmental Activities
<u>Assets</u>	
Cash and Equivalents	\$ 59,439
Capital Assets Not Being Depreciated	5,500
Capital Assets Being Depreciated - Net	<u>170,633</u>
Total Assets	<u>235,572</u>
 <u>Liabilities</u>	
Accounts Payable and Accrued Expenses	<u>402</u>
Total Liabilities	<u>402</u>
 <u>Net Assets</u>	
Invested In Capital Assets, Net of Related Debt	176,133
Unrestricted	47,416
Restricted	<u>11,621</u>
Total Net Assets	<u>\$235,170</u>

The notes to financial statements are an integral part of this statement.

WALDRON DISTRICT LIBRARY
Government-wide Statement of Activities
For The Year Ended July 31, 2004

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges For Services</u>	<u>Operating Grants And Contributions</u>	<u>Net (Expenses) Revenues</u>
Primary Government				
<u>Governmental Activities:</u>				
Library	\$63,775	\$1,184	\$37,696	\$(24,895)
Total Governmental Activities	<u>63,775</u>	<u>1,184</u>	<u>37,696</u>	<u>(24,895)</u>
General Revenues:				
Governmental Transfers				7,300
Grants and Contributions				
Not Restricted To				
Specific Programs				14,202
Earnings				<u>371</u>
Total General Revenues, Contributions and Transfers				<u>21,873</u>
Change In Net Assets (Decrease)				(3,022)
Net Assets, Beginning of Year				<u>238,192</u>
Net Assets, End of Year				<u>\$235,170</u>

The notes to financial statements are an integral part of this statement.

WALDRON DISTRICT LIBRARY
Governmental Funds
Balance Sheet
July 31, 2004

	General Fund	Total Governmental Funds
<u>ASSETS</u>		
Cash and Cash Equivalents	<u>\$59,439</u>	<u>\$59,439</u>
Total Assets	<u>\$59,439</u>	<u>\$59,439</u>
<u>LIABILITIES</u>		
Accounts Payable		
Accrued Liabilities	<u>\$ 402</u>	<u>\$ 402</u>
Total Liabilities	<u>402</u>	<u>402</u>
<u>FUND BALANCES</u>		
Unreserved	47,416	47,416
Restricted	<u>11,621</u>	<u>11,621</u>
Total Fund Balances	<u>59,037</u>	<u>59,037</u>
Total Liabilities and Fund Balances	<u>\$59,439</u>	<u>\$59,439</u>

WALDRON DISTRICT LIBRARY
Reconciliation of Fund Balances On The Balance Sheet For Governmental Funds
To Net Assets Of Governmental Activities On The Statement of Net Assets
July 31 2004

Fund Balances – Total Governmental Funds

\$ 59,037

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: Capital Assets

454,324

Deduct: Accumulated Depreciation

(278,191)

Net Assets of Governmental Activities

\$ 235,170

WALDRON DISTRICT LIBRARY
Governmental Funds
Statement of Revenue, Expenditures, and Changes in Fund Balances
For The Year Ended July 31, 2004

	<u>General</u> <u>Fund</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
<u>REVENUES</u>		
Penal Fines	\$11,897	\$11,897
Other	1,184	1,184
Interest	371	371
Contributions	37,696	37,696
Other Governmental Support	7,300	7,300
State Aid - Grant	<u>2,305</u>	<u>2,305</u>
Total Revenue	<u>60,753</u>	<u>60,753</u>
<u>EXPENDITURES</u>		
Current:		
Library	27,396	27,396
Capital Outlay	<u>22,591</u>	<u>22,591</u>
Total Expenditures	<u>49,987</u>	<u>49,987</u>
Excess of Revenue Over (Under) Expenditures	10,766	10,766
Fund Balances – Beginning of Year	<u>48,271</u>	<u>48,271</u>
Fund Balances – End of Year	<u>\$59,037</u>	<u>\$59,037</u>

WALDRON DISTRICT LIBRARY
Reconciliation Of The Statement Of Revenues, Expenditures,
And Changes In Fund Balances Of Governmental Statement Of Activities
July 31, 2004

Net Change In Fund Balances – Total Governmental Funds

\$ 10,766

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: Capital Outlay

22,591

Deduct: Depreciation Expense

(36,196)

Deduct: Loss on Disposal of Fixed Assets

(183)

Change In Net Assets Of Governmental Activities (Decrease)

\$ (3,022)

WALDRON DISTRICT LIBRARY
Notes to Financial Statements
July 31, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Waldron District Library conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units.

The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below:

A. Reporting Entity

Waldron District Library is governed by a Board of Trustees. The accompanying financial statements present the government for which government is considered to be financially accountable.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

Separate financial statements are provided for governmental funds.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

WALDRON DISTRICT LIBRARY
Notes to Financial Statements
July 31, 2004

Property taxes, franchise taxes, intergovernmental revenue licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-side financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue.

D. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Assets, Liabilities, and Net Assets or Equity

1. **Bank Deposits and Investment** – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loans associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

2. **Receivables and Payables** – In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

3. **Prepaid Items** – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements using the consumption method.

WALDRON DISTRICT LIBRARY
Notes to Financial Statements
July 31, 2004

4. **Inventories** - All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. There were no items at July 31, 2004.
5. **Capital Assets** - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., road, bridges, sidewalks, and similar items), are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$100 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Building	25 - 50
Machinery, Equipment, And Furnishings	5 - 15
Books, Audio-Video-CD	5 - 10

6. **Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

- A. **Budgetary Information** - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

On or before the end of June of each year, the Trustees presents the proposed budget for review.

The appropriated budget is prepared by fund, function and activity. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is with the Library Board.

WALDRON DISTRICT LIBRARY
Notes to Financial Statements
July 31, 2004

B. Excess of Expenditures Over Appropriations in Budgeted Funds - P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended July 31, 2004, the government incurred expenditures in excess of amounts appropriated at the legal level of budgetary control as follows:

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund:			
General Government:			
Library	\$32,600	\$49,987	\$(17,387)

NOTE 3 – DEPOSITS AND INVESTMENTS

The government unit's deposits and investment policy are in accordance with statutory authority.

Investments made by the Library are summarized below. The investments that are represented by specific identifiable investment securities are classified as to credit risk by the three categories described below:

- Category 1:** Insured or registered, or securities held by the Library or its agent in the Library's name.
- Category 2:** Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Library's name.
- Category 3:** Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Library's name.

	<u>Category 1</u>	<u>2</u>	<u>3</u>	<u>Carrying Value</u>	<u>Market Value</u>
Checking and Saving Acct.	\$59,439	\$ ---	\$ ---	\$59,439	\$59,439
	<u>\$59,439</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$59,439</u>	<u>\$59,439</u>

Balance Sheet Cash And Cash Investments

The Governmental Accounting Standards Board (GASB) Statement No. 3 risk disclosures for the Library's deposits are as follows:

<u>Deposits</u>	<u>Carrying Amount</u>
Insured (FDIC) (FSLIC)	\$59,439
Uninsured:	
Uncollateralized	---
Total	<u>\$59,439</u>

WALDRON DISTRICT LIBRARY
Notes to Financial Statements
July 31, 2004

NOTE 4 – CAPITAL ASSETS

Capital assets activity for the year ended July 31, 2004 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Governmental Activities</u>				
Capital Assets, Not Being Depreciated:				
Other	\$ 5,500	\$ ---	\$ ---	\$ 5,500
	<u>5,500</u>	<u>---</u>	<u>---</u>	<u>5,500</u>
Capital Assets, Being Depreciated:				
Buildings	91,410	---	---	91,410
Equipment	62,857	2,701	2,774	62,784
Books, Audio-Video-CD	<u>274,740</u>	<u>19,890</u>	<u>---</u>	<u>294,630</u>
Total Capital Assets Being Depreciated	<u>429,007</u>	<u>22,591</u>	<u>2,774</u>	<u>448,824</u>
Less Accumulated Depreciation For:				
Buildings	(27,801)	(3,041)	---	(30,842)
Equipment	(42,223)	(5,681)	---	(45,314)
Books, Audio-Video-CD	<u>(174,561)</u>	<u>(27,474)</u>	<u>2,590</u>	<u>(202,035)</u>
Total Accumulated Depreciation	<u>(244,585)</u>	<u>(36,196)</u>	<u>2,590</u>	<u>(278,191)</u>
Total Capital Assets, Being Depreciated, Net	<u>184,422</u>	<u>(13,605)</u>	<u>(184)</u>	<u>170,633</u>
Governmental Activities Capital Assets, Net	<u>\$ 189,922</u>	<u>\$ (13,605)</u>	<u>\$ (184)</u>	<u>\$ 176,133</u>

Depreciation expense was charged to functions/programs of the Library as follows:

Governmental Activities:

General Government:	
Library	<u>\$36,196</u>

Total Depreciation Expense	
Governmental Activities	<u>\$36,196</u>

NOTE 5 – OTHER INFORMATION

Risk Management

The government is exposed to various risks of loss related to torts; theft of damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended July 31, 2004, the government carried insurance through various commercial carriers, to cover all risks of losses. The government has had no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years.

WALDRON DISTRICT LIBRARY
Notes to Financial Statements
July 31, 2004

NOTE 6 – ACCOUNTING CHANGE

Effective August 1, 2003, the Waldron District Library implemented the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments (GASB No. 34), along with all related statements and interpretations. Changes to the Library's financial statements as a result of GASB No. 34 are as follows:

- A Management's Discussion and Analysis of the Library's overall financial position and results of operations has been included.
- Library-wide financial statements (statement of net assets and statement of activities) prepared using full accrual accounting for all of the Library's activities have been provided.
- Capital assets in the governmental activities column of the statement of net assets totaling \$176,133.

NOTE 7 – RESTRICTED NET ASSETS

The Library has restricted net assets by donor at July 31, 2004 as follows:

Books, Audio-Video	\$ 11
Microfilm	266
Hardware/Software	8,012
Automation	25
Building	<u>3,307</u>
Total	<u>\$11,621</u>

WALDRON DISTRICT LIBRARY
Budgetary Comparison Schedule
General Fund
For The Year Ended July 31, 2004

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
<u>Beginning of Year Fund Balance</u>				
Resources (Inflows)	\$48,271	\$48,271	\$ 48,271	\$ ---
Penal Fines	11,800	11,800	11,897	97
Interest	300	300	371	71
Other	700	700	1,184	484
Contributions	3,500	3,500	37,696	34,196
Other Governmental Support	7,300	7,300	7,300	---
State Aid - Grant	2,400	2,400	2,305	(95)
Amounts Available for Appropriation	<u>74,271</u>	<u>74,271</u>	<u>109,024</u>	<u>34,753</u>
<u>Charges to Appropriations (Outflows)</u>				
General Government				
Library				
Salaries & Wages	17,591	17,591	17,525	66
Payroll Taxes	1,380	1,390	1,385	5
Books and Periodicals	2,670	2,711	20,101	(17,390)
Operating Supplies	1,300	1,820	1,819	1
Utilities	3,149	3,149	2,791	358
Memberships and Dues	1,200	1,325	1,325	---
Professional Fees	700	700	---	700
Insurance	800	812	812	---
Newsletter	1,000	1,016	1,015	1
Repairs and Maintenance	400	410	242	168
Educational Expenses	60	60	45	15
Travel	150	150	130	20
Miscellaneous	1,700	966	96	870
Capital Outlay	500	500	2,701	(2,201)
Total Charges to Appropriations	<u>32,600</u>	<u>32,600</u>	<u>49,987</u>	<u>(17,387)</u>
Ending of Year Fund Balance	<u>\$41,671</u>	<u>\$41,671</u>	<u>\$ 59,037</u>	<u>\$ 17,366</u>

PHILIP R. RUBLEY

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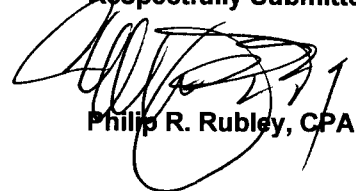
January 31, 2005

**Waldron District Library
Board of Trustees
107 N. Main St.
Waldron, Michigan 49288**

In planning and performing my audit of the financial statements of Waldron District Library for the year ended July 31, 2004, I considered the Library's internal control structure in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements. The consideration I gave to the internal control structure was not sufficient for me to provide any form of assurance on it. However, in reviewing the Library's processes and systems, I made observations I feel should be communicated to you and I have done so in a separate letter dated January 31, 2005. In addition I have summarized other areas for Board's consideration involving internal controls and fraud considerations.

If you have any questions on the information contained in this letter please contact me.

Respectfully Submitted,



Philip R. Rubley, CPA

PRR/cab

INTERNAL CONTROLS

Over a relatively short period of time, there have been several large fraud related cases documented in the mid-Michigan area, as well as in other areas of Michigan and throughout the country. These highly publicized cases have raised significant concerns for management of many organizations, as well as the council members of these not-for-profit organizations and governmental organizations, concerning their organization's vulnerability to internal or external fraud related activities. It is strongly believed that all organizations, both small and large, have some level of risk in this area and even having the "best practices" in place will not necessarily prevent the occurrence of this unfortunate activity.

Through many recent conversations with my clients regarding their susceptibility to fraud, it was noted the most important element necessary to reduce the risk of fraud is to have a sound organizational structure, which includes sound accounting and internal control policies and procedures (IN THE EYES OF THEIR EMPLOYEES). One of the key aspects of strong controls, and thus a deterrent, is senior management's support and involvement with accounting and internal control monitoring and related decisions.

Some of the key areas to focus on include, but are not limited to, the following:

- Cash receipts handling and posting to general ledgers including the initial posting of cash receipts.
- Posting of adjusting journal entries to the ledger.
- Cash disbursements, including the establishment of vendor master files in the computer system and maintenance and controls surrounding the signature of cash disbursement checks.
- Payroll, including the access to all master files detailing wage rates and other information, and the establishment of new employees in the computer system.
- Proper approval procedures for all disbursements including a good checks and balances system i.e.: no one person responsible for this function where possible.

FRAUD CONSIDERATIONS

Statement of Auditing Standards No. 99 (SAS99), consideration of Fraud in a Financial Statement Audit

Effective for the year ended December 31, 2003, Statement on Auditing Standards No. 99 (SAS99), *Consideration of Fraud in a Financial Statement Audit*, requires additional audit procedures addressing the risk of fraud in an organization. Our responsibility is not to detect fraud, but to detect material misstatements in the financial statements caused by fraud, and our consideration of fraud is integrated into the overall audit process.

Types of fraud include intentional misstatements or omissions in financial reporting and misappropriation of assets. SAS 99 requires auditors to address:

- How and where the client's financial statements might be susceptible to material misstatement due to fraud and what conditions might be present to allow fraud to occur.
- How management could perpetrate and conceal fraud.
- How management or employees could misappropriate assets of the client.

In addition, SAS 99 requires auditors to make inquiry of:

- Management regarding their awareness and understanding of fraud, fraud risks, and steps taken to mitigate risks.
- Others within the entity, including council members, non-financial executives, administrators, and non-management personnel not directly involved in the financial reporting process, regarding the existence of suspicion of fraud and the individual's views about the risks of fraud within the entity.

Risk areas identified through inquiries and based on industry knowledge will significantly affect the audit process. With your help, the implementation of these new standards will certainly lead to a greater comfort in the controls you have designed and implemented. It may even create greater efficiency in the accounting process as a byproduct of the process.

Creating A Culture Of Honesty And High Ethics

It is the Library's responsibility to establish core values and to effectively communicate the values to employees in order to create a culture with high ethical standards. The AICPA has included the following as key components necessary for the creation of such a culture.

Setting The Tone At The Top

Management, through the modeling of high ethics themselves and effectively communicating expectations to employees, is responsible for leading the effort to create the appropriate culture within the Library.

Creating A Positive Workplace Environment

The creation of a positive workplace environment, where employees feel they are treated fairly, has proven to reduce the risk of fraud. This type of environment could be created as follows:

Allowing employees to provide input related to the code of conduct.

- Enabling employees to internally seek advice concerning decisions that appear to have ethical implications.
- Establishment of a fair reward system.
- Implementation of team-focused decision making policies.

Hiring And Promoting Appropriate Employees

Policies must be effective in reducing the changes of hiring and promoting individuals with low ethical standards.

Training

Core values expressing an attitude of intolerance toward unethical behavior should be communicated immediately to new hires and should be recommunicated periodically to all employees.

Confirmation

Reinforcement of core values occurs if the employees are required to sign a code of conduct statement.

Discipline

Consequences of unethical behavior should be communicated upfront, and management response to unethical behavior should be consistent with the consequences communicated. Management's response demonstrates the level of commitment to the ethical standards and could deter future wrongdoing.

Evaluating Antifraud Processes and Controls

Perceived opportunity to successfully commit fraud increases the risk that fraud will occur. The following can help in reducing the opportunity for fraud.

Identifying And Measuring Fraud Risks

The Library's vulnerability to fraudulent activity (including Fraudulent financial reporting, misappropriation of assets, bribery and other illegal acts) should be assessed.

Implementing And Monitoring Appropriate Internal Controls

Internal processes can be modified to reduce fraud risk. Examples of such process modifications are as follows:

- Additional review of the procurement process
- Segregation of duties
- Adequate scrutiny of interim financial reports and budget reports by management

Developing An Appropriate Oversight Process

Whether it is external or internal oversight, appropriate oversight should be identified and established.

Library Board of Trustees

The Board of Trustees is ultimately responsible for ensuring management is doing an effective job of monitoring fraud risk and implementing procedures to mitigate fraud risk. Therefore, the Board of Trustees should be evaluating management's assessments and controls.

Independent Auditors

Independent auditors can provide an assessment of the Library's process for identifying, assessing and responding to the risk of fraud.

Certified Fraud Examiners

Certified Fraud Examiners can provide additional insight into the risk assessment.

Other Information

The following Web sites provide additional guidance on fraud and the implementation of anti-fraud programs and controls:

American Institute of Certified Public Accountants
Association of Certified Fraud Examiners
Financial Executives International
Information Systems Audit and Control Association
The Institute of Internal Auditors
Institute of Management Accounts
National Association of Corporate Directors
Society for Human Resource Management

www.aicpa.org
www.cfenet.com
www.fei.org
www.isaca.org
www.theiia.org
www.imanet.org
www.nacdonline.org
www.shrm.org

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January 31, 2005

**Waldron District Library
Board of Trustees
107 N. Main St.
Waldron, Michigan 49288**

We have examined the combined financial statements of the Waldron District Library and the combining, individual fund and account group financial statements of the Library as of and for the year ended July 31, 2004, and have issued our report thereon dated January 31, 2005. As a part of our examination, we made a study and evaluation of the Library's system of internal accounting control to the extent we considered necessary to evaluate the system as required by auditing standards generally accepted in the United States of America. Under these standards, the purposes of such evaluation are to establish a basis for reliance on the system of internal accounting control in determining the nature, timing and extent of other auditing procedures that are necessary for expressing an opinion on the financial statements and to assist the auditor in planning and performing his examination of the financial statements.

The objective of internal accounting control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management either with respect to the execution and recording of transactions or with respect to the estimates and judgments required in the preparation of financial statements. Further, projection of any evaluation of internal accounting control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate.

Our examination of the financial statements made in accordance with auditing standards generally accepted in the United States of America, including the study and evaluation of the Library's system of internal accounting control for the year ended July 31, 2004, that was made for the purpose set forth in the first paragraph of this report, would not necessarily disclose all weaknesses in the system because it was based on selective tests of accounting records and related data.

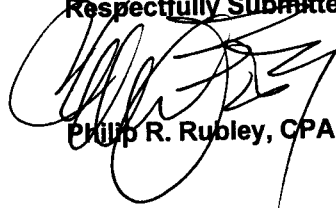
1. **CONTRIBUTIONS**

The Library should send out letters (in addition to monetary contributions) for in kind contributions reflecting items received. No dollar amount should be reflected. Continue to maintain records as to restricted vs. unrestricted contributions in the accounting records.

The above mentioned conditions were considered in determining the nature, timing, and extent of audit tests to be applied to our examination of the financial statements, and this report does not modify our report dated January 31, 2005, on such financial statements.

If we can be of any further assistance, please do not hesitate in contacting us.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read 'Philip R. Rubley', is written over the printed name.

Philip R. Rubley, CPA

PRR/cab